SEB

Equity forwards and futures
Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

Introduction

An equity forward or future is a derivative instrument whose value is linked to the performance of an underlying equity or equity index. Equity forwards or futures can be used to speculate on the price movement of a specific equity or equity index. They can also be used to protect a holding of equities against a drop in value, or to lock in profits. Equity forwards and equity futures are categorized as complex financial instruments.

An equity forward or future is a contract for a future equity transaction that always has a specific term. The use of equity forwards or futures is based on certain expectations regarding the underlying asset's performance over a given time period. Investors with a positive view of the market can buy equity forwards or futures, while those with a negative view can sell equity forwards or futures.

The price of the forward or future is based on the underlying asset. It can also be influenced by other factors such as the remaining term, interest rate fluctuations and dividends on the underlying asset.

When you trade in equity forwards or futures, you will be required to pledge collateral. The collateral consists of assets in your custody account, or in the account connected to the custody account. The requirement for collateral may change in line with changes in volatility or the price of the underlying asset.

Derivative instruments vary in regard to their risk level and the factors that affect the financial outcome. It is therefore important that you understand what applies to the specific derivative you intend to trade in.

How equity forwards and futures work

An equity forward/future or equity index forward/future is a contract between two parties under which both the buyer and the seller undertake to buy or sell the underlying equities or equity index at a previously agreed price, with delivery or cash settlement at a predetermined time in the future.

An equity forward or equity future gives the buyer a long position that increases in value if the price of the underlying asset rises, while the seller enters a short position that increases in value if the price of the asset drops.

An equity forward or equity future can be used to make more efficient use of capital. For instance, it allows you to guarantee the future price of an equity or equity index. Unlike with ordinary equity purchases, the equities only fall due for payment when the forward or future expires. This means that the capital is available for use until the forward's or future's expiry date. The value of the collateral that both the buyer and seller are required to pledge is lower than the value of the forward position. For this reason, forwards and futures can be said to give the investor leverage.

The difference between forwards and futures lies in the way they are settled (i.e. when payment is received or made by the holder, depending on whether the position has increased or decreased in value). Futures are settled on a daily basis, while forwards are paid for and delivered on the expiry date. It is most common for forwards to be used for equity forwards and futures to be used for index futures. Index futures/forwards are always settled in cash, meaning that there is no physical delivery of the underlying assets.

An equity forward/equity future is a contract between two parties and cannot be freely sold.

For whom are equity forwards and futures suitable?

Forwards and futures can be used regardless of whether you have a positive or negative view of the market. When you buy a forward or futures contract, the purchase price of the equities is guaranteed up to a given date. This can be useful, for instance, if you are awaiting a rise in capital. Trading in forwards and futures also enables you to have less capital tied up in the investment compared to normal equities if you have a positive view of the market.

Selling forward or futures contracts allows you to protect your equities if you fear a temporary drop in price. Investors with a negative view of the market can also sell forward and futures contracts for speculative purposes, in order to make a profit if equity prices drop.

Trading in equity forwards and futures

Equity forwards and futures are traded on a regulated market or stock exchange according to established regulations. In order to trade in equity forwards and futures, you must have a custody account and a cash account. You must also sign a Customer Agreement (derivathandelsavtal) via SEB.

Risk

In the context of derivative instruments, the term "risk" denotes the probability that the value of the instrument will decline. A higher risk often means a greater opportunity for a high return, but at the same time the risk of losing your invested amount increases.

Risk can vary considerably between different derivative instruments and derivative instrument combinations. Equity forwards and futures can be used to avoid the risk associated with future equity price changes, as well as to speculate with the aim of increasing the value of the investment. Speculating with equity forwards and futures involves higher risk.

The risk when trading in forwards and futures is that the price of the underlying equity or equity index could move differently to the projection made at the time of purchase. The buyer of a forward/future makes a loss if the underlying equity or equity index drops in value, while the seller of a forward/future makes a loss if the underlying equity or equity index rises in value.

Equity forwards and futures can be traded until the instrument's expiry date. This allows any loss to be limited, and the instrument can also be closed during the period.

Costs

When you trade in equity forwards or futures, you pay a commission fee and a clearing fee based on the amount you invest. When you trade in equity index forwards or futures, the clearing fee is paid on a contract-by-contract basis. A commission fee is also charged when you trade in forwards or futures.

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Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

Check your experience

How long have you invested in this type of instrument?	What is the average amount of money you have invested in this type of instrument?	How many times per year have you traded in this type of instrument?
☐ No experience	☐ Up to 50 000	☐ Up to 2
☐ Less than one year	☐ Up to 100 000	☐ Up to 5
☐ 1 to 5 years	☐ Up to 250 000	☐ Up to 10
☐ More than 5 years	☐ Up to 500 000	☐ More than 10
	☐ More than 500 000	

Check your knowledge

1. What is characteristic of an equity future?

A) ☐ An equity future has no specific term
B) ☐ An equity future always has a specific term
C) ☐ The term may be changed since the agreement was entered

2. What is the difference between buying equity futures and ordinary equity purchases?

A) ☐ When trading in equity futures you pay for the equities when the future expires
B) ☐ When trading in equity futures you have more capital tied up compared to normal equities
C) ☐ Equity futures are not traded on a stock exchange

3. What affects the value of a forward?

A) ☐ Premium paid
B) ☐ The value of the underlying asset
C) ☐ The volatility of the underlying asset

4. Entering into a forward contract means that...

A) ☐ ... you are entitled to buy/sell underlying equities at a predetermined price
B) ☐ ... you are obliged to buy/sell underlying equities at a predetermined price
C) ☐ ... both parties are obliged to buy/sell underlying equities at a predetermined price

5. What is characteristic of a forward?

A) ☐ Payment and delivery of the underlying equities occurs on the expiry date
B) ☐ Payment and delivery of the underlying equities occurs if the equity price reaches a certain level
C) ☐ Forwards are settled on a daily basis

6. What is characteristic of a future?

A) ☐ Payment and delivery of the underlying equities occurs if the equity price reaches a certain level
B) ☐ Payment and delivery of the underlying equities occurs on the expiry date
C) ☐ That it has daily cash delivery

7. Which statement is correct?

A) ☐ If you have a positive view of the market you could buy equity futures
B) ☐ If you have a negative view of the market you could buy equity futures
C) ☐ Futures are only suitable for investors with a negative view of the market

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